Cattle Feeding and Hog Production Profitability Outlook

Corn prices are about 30% above a year ago. That weighs heavy on the minds of livestock producers as cattle feeders face tight to negative margins and hog producers start to see their first “substantial” red ink in almost 4 years. Based on what we know right now, what is the potential for profits or losses in the next year? Based on historic Figure 1 is a graph of the Iowa estimated sale values of finished steers and the breakeven prices for finishing yearling steers so far in 2007. It also contains a forecasted range for the next 12 months based on Nov. 1 futures values and Iowa basis. The value of corn feed was based on the futures price and the 2006 median mid-month central Iowa basis. The ranges in the breakeven and sale value forecasts are based on the three year average standard deviation in basis.

Figure 1. Finishing Yearling Steers, YTD and 12 Month Forecast

So what can we learn from this forecasted comparison? We know that cattle feeders have been seeing some red ink so far this fall, and based on the futures market that is likely to continue until the second quarter of 2008. Producers using a position on the futures market would have their best chance of locking in a profit margin from April to June. We also see from this comparison the steady to slightly bullish year over year trends in the Iowa fed cattle market. As for breakeven points past next summer, uncertainty in the 2008 corn
crop and supply have kept the forecasted breakevens for cattle finishing well above the range of expected sale values.

Hog producers so far in 2007 have seen good profitability, but the year will not end so well. Figure 2 graphs the year to date estimated cost per hog finished and market sale value based on the Iowa Estimated Returns to the Farrow-to-finish enterprise, followed by the projected sale value and breakeven cost of a 270 lbs hog based on the Nov. 1 futures market. Corn prices for these projections also followed the futures market.

**Figure 2. Farrow to Finish Hog Production, YTD and 12 Month Forecast**

![Graph showing the estimated cost per hog and projected sale value and breakeven cost](image)

Losses in the fourth quarter of 07 are beginning to be experienced due to the quickly softening hog market. Losses are expected to continue until March and even May based on the projections seen in Figure 2. But the futures market is forecasting added strength in the summer of 08, which will be a breath of fresh air for producers who were getting used to continued profitability. Corn prices in the next year will continue to be a question mark, but for now the futures price for corn in the last quarter of 08 does not bode well for the cost of hog production. That being said, any moderation in feed costs will add to the hope of net profitability again in 2008.

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Dr. Bob Wisner is currently traveling in China, so the crops section of this newsletter will not be available this week.